

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature			Date	

BENTON TWP HOUSING COMMISSION

Financial Statements

September 30, 2004

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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As management of the Benton Township Housing Commission we offer reviewers of this audit report this narrative discussion and analysis of the Benton Township Housing Commission's financial activities for the FYE 9/30/04. This discussion and analysis letter of the Benton Township Housing Commission's financial performance should be read in conjunction with the auditor's opinion letter and the following Financial Statements.

The combined financial statements reflect all of the Commission's federally funded programs and activities. The accompanying Financial Data Schedule reports these results in more detail, program by program. The Commission reports all its activities and programs using the Enterprise Fund type model. HUD encourages PHAs to use this accounting method as it is normally used to account for "business-type activities" – activities similar to those found in the private sector. Enterprise Fund types use the accrual method of accounting, the same accounting method employed by most private-sector businesses. Under this method, revenues and expenditures may be reported as such even though no cash transaction has actually taken place.

#### **Benton Township Housing Commission Funds:**

*Low Rent Public Housing:* Under this program, the Housing Commission rents units that it owns to low-income elderly and family households. This program is operated under an Annual Contributions Contract with HUD. HUD provides Operating Subsidies to enable the Housing Commission to lease these units at a rate that is based on 30% of the household income.

*Capital Fund Program:* Under this program, the Housing Commission is awarded funds each year to use for Capital Needs. The Housing Commission also has the ability to use up to 20% of these funds, if need be, to supplement Operating Subsidies. This program is the primary funding source for physical improvements to its properties.

*Section 8 Housing Choice Voucher Program:* Under this program, the Housing Commission administers contracts with independent landlords to provide housing for low-income households. These units are not owned by the Housing Commission. The Housing Commission subsidizes the family's rent via a "Housing Assistance Payment" made directly to the landlord. HUD provides subsidy to the Housing Commission to enable the Housing Commission to set the rental rates at 30% of a participant's income.

### Entity-Wide Financial Highlights:

The following Federal Assistance was received during FYE 9/30/04:

	<u>FYE 9/30/04</u>	<u>FYE 9/30/03</u>	<u>Change</u>
Public Housing Operating Subsidy	548,112	902,237	(54,125)
Capital Fund Program Grants	1,015,055	439,493	575,562
Sec. 8 Voucher Subsidy Total	366,903	355,135	11,768

- The subsidy for Section 8 remained relatively stable.
- The decrease in Public Housing subsidy was primarily the result of a regulatory change in the way subsidy is processed. HUD ceased processing prior year adjustments as of FYE 9/30/04. For FYE 9/30/03, prior year adjustments accounted for \$106,282 of the total \$602,237.
- The substantial increase in the Capital Fund Program was due to the fact that work projects during FYE 9/30/04 progressed along at a much more rapid pace than the prior year, thus utilizing more of our Capital Fund Program funding in FYE 9/30/04 than in FYE 9/30/03.

The following represents changes in the

Asset section of the Balance Sheet:	<u>FYE 9/30/04</u>	<u>FYE 9/30/03</u>	<u>Change</u>
Cash & Investments	599,656	543,695	55,961
Total Current Assets, net of inter-program (due from)	1,083,847	818,332	265,515
Fixed Assets, Net of Depreciation	6,104,912	5,936,302	168,610
Total Liabilities, net of inter-program (due to)	476,999	226,613	250,386
Total Net Assets	6,711,760	6,528,021	183,739

- Cash and Investments increased by about 10%. Fixed Assets increased by \$763,083; this increase represents capital projects funded through the Capital Fund Programs (see details below). Although Fixed Assets increased by \$763,083, this increase was offset by depreciation charges of \$593,574 and Disposals of a net \$900, resulting in the net increase stated in the above table.
- The substantial increase in Liabilities was caused by the increased activity in our Capital Fund Programs. Contract retention increased by \$55,565. Also, at 9/30/04 we booked as payable a \$224,100 payment due to the General Contractor that represented work completed through 9/30/04, but was paid after the close of the fiscal year. There was no such comparable payable at 9/30/03.
- The increase in Total Net Assets (Equity) mainly resulted from the increased Capital activities.

The following schedule compares the Revenues and Expenses for the current and prior fiscal years:

Statement of Revenues, Expenses, and Changes in Net Assets

	FYE 9/30/04	FYE 9/30/03	<u>Per Cent</u> Change
<b>Revenues:</b>			
Tenant Revenue	764,374	748,462	2.1%
Investment Income	5,306	7,336	-27.7%
Other Revenue	15,609	16,906	-7.7%
Total PHA generated Revenue	785,289	772,704	1.6%
Operating Subsidies	1,166,987	1,074,413	8.6%
Capital Grants	763,083	322,452	136.7%
<b>Total Revenue</b>	<b>2,715,359</b>	<b>2,169,569</b>	<b>25.2%</b>
<b>Expenses:</b>			
Administrative	470,093	474,001	-0.8%
Tenant Services	27,111	32,633	-16.9%
Utilities	522,177	444,187	17.6%
Maintenance	482,813	497,183	-2.9%
General	102,600	102,427	0.2%
Extraordinary Items	0	20,938	N/A
Casualty Losses	1,539	0	N/A
Housing Assistance Payments	330,937	316,110	4.7%
Depreciation	593,574	562,106	5.6%
Total Expenses	2,530,844	2,449,585	3.3%
<b>Net Increase (Decrease)</b>	<b>184,515</b>	<b>(280,016)</b>	

*Revenues:*

Benton Township Housing Commission's primary revenue sources are subsidies and grants received by HUD. Operating Revenue received from HUD in FYE 9/30/04 for Public Housing and for Sec. 8 remained relatively flat from fye 9/30/03 to 9/30/04, although we saw a substantial increase in Capital Grant Revenue as discussed previously. For FYE 9/30/04, revenue generated by the Commission accounted for \$785,289 (or 29% of total revenue), while HUD contributions accounted for \$1,930,070 (or 71% of total revenue). Investment Income decreased due to declining interest rates.

*Expenses:*

Total Expenses for FYE 9/30/03 were \$2,449,585 while for FYE 9/30/04 the total was \$2,530,844. This represents just a 3.3% increase in our Operating Costs, an amount that can be substantially attributed to inflation. The cost areas that increased the most were:

	FYE 9/30/04	FYE 9/30/03	Per Cent Change
Employee Benefits	190,115	168,486	12.8%
Property Insurance	80,353	67,303	19.4%
Utilities	522,177	444,187	17.6%

*Budget Analysis:*

A Low Rent Public Housing Operating Budget for fye 9/30/04 was presented to and approved by the Board of Commissioners. We revised this Budget once at the end of the fiscal year, primarily to include additional utilization of HUD funding sources. There was little change in the projected PHA-generated revenue or expense categories from the Original Approved Budget. Actual results were in line with budgeted amounts.

**Entity-Wide Operational Highlights:**

The Benton Township Housing Commission provided the following housing for low- income elderly and low-income families:

	<u>FYE 9/30/04</u>	<u>FYE 9/30/03</u>
Low Rent Public Housing	300	300
Sec. 8 Housing Choice Voucher	75	75

During FYE 9/30/04, Benton Township Housing Commission maintained a lease-up rate of 97.7% in its Public Housing Program and a lease-up rate of 97.8% in its Section 8 program. These lease-up rates are within HUD guidelines.

During FYE 9/30/04, our Capital Fund Program work projects included:

- The primary work project was electrical upgrades in all our units in order to install air conditioners and dryers in each dwelling unit. This project involved not only upgrading the electrical wiring, but cutting holes through walls to accommodate the new air conditioning units, including sleeves. We also purchased the air conditioners, as well as began an appliance (ranges & refrigerators) replacement program.

### **Commission's Position**

The Housing Commission remains concerned about the future levels of HUD funding due to the state of the federal budget. Since we are in an area that is hit hard by winter weather, the cost of Natural Gas is a substantial (and largely uncontrollable) part of our Operating Budget. With the suspension of prior-year utility adjustments to Operating Subsidy we are hit particularly hard. For FYE 9/30/04, the utility adjustment was an additional \$135,540 of subsidy that is due us but which we will never receive. Likewise, Operating Subsidy has been unable to keep up with the unprecedented increases in property insurance since 9/11. Our rates have increased by more than 75%. We have, therefore, begun to budget the allotted 20% of Capital Fund Program grant revenue for use as Operating Revenue. Even though this limits our Capital expenditures, we feel that we must utilize this funding source at this time. In addition, we intend to continue to monitor our operating expenses. We were successful during FYE 9/30/04 in holding the line on expenses, with the notable exception of Utility costs. We were able to actually decrease our costs in the area of ordinary maintenance. This cost decreased by approximately \$33,000 from FYE 9/30/03 to 9/30/04.

With these efforts in place, the Benton Township Housing Commission expects to be able to provide safe, sanitary, and decent housing for the low income elderly and families of our community for many years to come.

Sharon Hester  
Executive Director



***John C. DiPiero, P.C.***

Certified Public Accountant

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Board of Commissioners  
Benton Township Housing Commission  
1216 Blossom Lane  
Benton Harbor, Michigan 49022

### **Independent Auditor's Report**

I have audited the financial statements listed in the Table of Contents of the Benton Twp Housing Commission as of and for the year ended September 30, 2004. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis -for State and Local Governments* as of October 1, 2002. This results in a change in the format and content of the basic financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Benton Twp Housing Commission as of September 30, 2004, and the results of its operations and the cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Required Supplemental Information**

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### **Combining Financial Statements**

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the financial statements taken as whole.

Certified Public Accountant

March 24, 2005

BENTON TWP HOUSING COMMISSION  
Combined Statement of Net Assets  
September 30, 2004

ASSETS

C-3027

CURRENT ASSETS

Cash	\$ 419,024
Accounts Receivable (Net)	419,180
Investments	180,632
Prepaid Expenses	65,011
Inter Program due from	<u>406,172</u>

Total Current Assets \$ 1,490,019

NON CURRENT ASSETS

Land	\$ 250,681
Buildings	5,024,388
Furniture, Equipment- Dwellings	229,293
Furniture, Equipment- Administrative	272,855
Leasehold Improvements	7,406,652
Accumulated Depreciation	<u>(7,078,957)</u>

Total Non Current Assets 6,104,912

TOTAL ASSETS \$ 7,594,931

BENTON TWP HOUSING COMMISSION  
Combined Statement of Net Assets  
September 30, 2004

LIABILITIES & NET ASSETS

C-3027

LIABILITIES:

CURRENT LIABILITIES

Accounts Payable	\$ 315,576
Accrued Liabilities	41,937
Tenants Security Deposit	63,807
Accounts Payable- Other Governments	42,057
Deferred Revenue	3,629
Inter-Program due to	<u>406,172</u>

<u>Total Current Liabilities</u>	\$ 873,178
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NON CURRENT LIABILITIES

Accrued Compensated Absences	<u>9,993</u>
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<u>Total Liabilities</u>	\$ 883,171
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NET ASSETS:

Investment in Fixed Assets	
net of Related Debt	\$ 6,104,912
Retained Earnings	<u>606,848</u>

<u>Total Net Assets</u>	<u>6,711,760</u>
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<u>TOTAL LIABILITIES &amp; NET ASSETS</u>	<u>\$ 7,594,931</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

BENTON TWP HOUSING COMMISSION  
Combined Statement of Revenues, Expenses, and Changes in Net Assets  
For the year ended September 30, 2004

Business Type Activities

OPERATING REVENUE

Tenant Rental Revenue	\$ 764,374
HUD Grants	1,930,070
Interest Income	5,306
Other Income	<u>16,059</u>

<u>Total Operating Revenue</u>	\$ 2,715,809
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OPERATING EXPENSES

Administrative	\$ 470,093
Tenant Services	27,111
Utility Expenses	522,177
Ordinary Maintenance	482,813
General Expenses	<u>102,600</u>

<u>Total Operating Expenses</u>	<u>1,604,794</u>
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<u>Operating Income (Loss)</u>	\$ 1,111,015
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NONOPERATING REVENUES (EXPENSES)

Loss on the Sale of Fixed Assets	\$ (450)
Casualty Losses non capitalized	(1,539)
Housing Assistance Payments	(330,937)
Depreciation Expenses	<u>(593,574)</u>

<u>Total Nonoperating (Expenses)</u>	<u>(926,500)</u>
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<u>Change in Net Assets</u>	\$ 184,515
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Total Net Assets- Beginning	<u>6,527,245</u>
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Total Net Assets- Ending	\$ <u>6,711,760</u>
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The Accompanying Footnotes are an Integral Part of the Financial Statements

BENTON TWP HOUSING COMMISSION  
Combined Statement of Cash Flows  
For the Year Ended September 30, 2004

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 764,598
Payments to Suppliers	(1,448,455)
Payments to Employees	(454,576)
HUD Grants	1,930,070
Other Receipts (Payments)	<u>20,915</u>
Net Cash Provided (Used) by Operating Activities	\$ 812,552

CASH FLOWS FROM CAPITAL AND  
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(763,083)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 49,469
Balance- Beginning of Year	<u>369,555</u>
Balance- End of Year	\$ <u>419,024</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET  
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ 184,515
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	593,574
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(204,287)
Investments	(6,492)
Prepaid Expenses	(5,267)
Interfund Due From	(302,022)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	282,029
Accrued Liabilities	(11,648)
Security Deposits	3,229
Accounts Payable- Other Governments	(24,258)
Deferred Revenue	1,157
Interfund Due To	<u>302,022</u>
Net Cash Provided by Operating Activities	\$ <u>812,552</u>

The Accompanying Notes are an Integral part of the Financial Statements

BENTON TWP HOUSING COMMISSION  
Notes to Financial Statements  
September 30, 2004

NOTE 1: Summary of Significant Accounting Policies

**Reporting Entity-**

Benton Twp. Housing Commission, Benton Harbor, Michigan, (Commission) was created by ordinance of Benton Township. The Commission signed and Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 32-001	Low rent program	300 units
MI 32-V0 032-2, 3	Section 8 Vouchers	75 units

In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above, there are no component units.

These criteria were considered in determining the reporting entity.

**Basis of Presentation-**

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

## Notes to Financial Statements- continued

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis- for State and Local Governments. Certain of the significant changes in the Statement include the following:

For the first time the financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Housing Commission's financial position and results of operations.
- Financial Statements prepared using full accrual accounting for all the Commission's activities.

A change in the fund financial statements to focus on the major funds.

### Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

### Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, provided they do not conflict with Governmental Accounting Standards Board (GASB) pronouncements.



## Notes to Financial Statements- continued

### **Budgetary data-**

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

### **Assets, Liabilities, and Net Assets-**

#### **Deposits & Investments**

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

#### **Cash Equivalents**

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

#### **Fixed Assets**

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and undesignated fund balance components. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

#### **Compensated Absences**

Sick leave and other compensated absences with similar characteristics have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement.

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

Checking Accounts	\$ 348,357
Savings Accounts	70,367
Petty Cash	<u>300</u>
Financial Statement Total	\$ <u>419,024</u>

Investments:

Certificates of Deposit	\$ <u>180,632</u>
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Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>			<u>Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash:					
Checking A/C's	\$ 348,357	\$	\$	\$ 348,357	\$ 348,357
Petty Cash	300			300	300
Savings Accounts	<u>70,367</u>			<u>70,367</u>	<u>70,367</u>
Total Cash	\$ <u>419,024</u>	\$	\$	\$ <u>419,024</u>	\$ <u>419,024</u>
Investments:					
C/D's	\$ <u>180,632</u>	\$	\$	\$ <u>180,632</u>	\$ <u>180,632</u>

Note 3: Accounts Receivable

Accounts Receivable consist of the following:

Accounts Receivable	\$ 5,786	
Allowance for Doubtful Accounts	<u>(3,548)</u>	\$ 2,238
Account Receivable-Family Investment Center	\$ 22,655	
Accounts Receivable- HUD	393,377	
Accrued Interest Receivable	<u>910</u>	<u>416,942</u>
Accounts Receivable, net		\$ <u>419,180</u>

Notes to Financial Statements- continued

Note 4: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 250,681	\$	\$	\$ 250,681
Buildings	5,024,388			5,024,388
Furniture & Equipment-Dwellings	229,293			229,293
Furniture & Equipment-Admin	278,905		6,050	272,855
Leasehold Improvements	<u>6,643,569</u>	<u>763,083</u>		<u>7,406,652</u>
	\$12,426,836	\$ 763,083	\$ 6,050	\$13,183,869
Less Accumulated Depreciation	<u>6,490,534</u>	<u>593,574</u>	<u>5,151</u>	<u>7,078,957</u>
	<u>\$ 5,936,302</u>	<u>\$ 169,509</u>	<u>\$ 899</u>	<u>\$ 6,104,912</u>

Note 5: Accrued Liabilities

Accrued Liabilities consist of the following:

Accrued Wages & Benefits	\$ 8,751
Compensated Absences	1,110
Accounts Payable-HUD	1,054
Accrued Utilities Payable	<u>31,022</u>
Financial Statement Total	<u>\$ 41,937</u>

Note 6: Pension Plan

The Commission has a Defined Contribution Pension Plan (Plan) for governmental employees. The Plan allows for early retirement (age 55), normal retirement (age 65), employer contributions (10% of compensation), mandatory after-tax employee contributions (5% of compensation), and voluntary after tax employee contributions (1-10% of compensation). In addition to the above, no age requirements exist for eligibility, and 100% vesting is immediate. Plan assets and funding statistics are available under separate cover provided to the Commission by the Insurer.

Note 7: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Notes to Financial Statements- continued

Note 8: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 21,583,000
General Liability	1,000,000
Dishonesty Bond	1,000,000
Automobile Liability	300,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 9: Combining Financial Data Schedules.

The totals in the Combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

## Benton Twp Housing Commission

30-Sep-04

MI032

Combining Balance Sheet		Low Rent 14.850	Section 8 Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	TOTAL
Line Item #					
	<b>ASSETS:</b>				
	<b>CURRENT ASSETS:</b>				
	Cash:				
111	Cash - unrestricted	403,052	15,972	-	419,024
112	Cash - restricted - modernization and developmen	-			-
113	Cash - other restricted				-
114	Cash - tenant security deposits				-
100	Total cash	403,052	15,972	-	419,024
	Accounts and notes receivables:				
121	Accounts receivable - PHA projects		555		555
122	Accounts receivable - HUD other projects	-	10,095	382,727	392,822
124	Accounts receivable - other government				-
125	Accounts receivable - miscellaneous	22,655			22,655
126	Accounts receivable- tenants - dwelling rents	5,786			5,786
126.1	Allowance for doubtful accounts - dwelling rents	(3,548)			(3,548)
126.2	Allowance for doubtful accounts - other				-
127	Notes and mortgages receivable- curren				-
128	Fraud recovery				-
128.1	Allowance for doubtful accounts - fraud				-
129	Accrued interest receivable	910			910
120	Total receivables, net of allowances for doubtful accou	25,803	10,650	382,727	419,180
	Current investments				-
131	Investments - unrestricted	180,632			180,632
132	Investments - restricted				-
142	Prepaid expenses and other assets	65,011			65,011
143	Inventories				-
143.1	Allowance for obsolete inventories				-
144	Interprogram - due from	406,172	-	-	406,172
146	Amounts to be provided				-
150	TOTAL CURRENT ASSETS	1,080,670	26,622	382,727	1,490,019
	<b>NONCURRENT ASSETS:</b>				
	Fixed assets:				
161	Land	230,681	20,000		250,681
162	Buildings	5,024,388			5,024,388
163	Furniture, equipment & machinery - dwellings	229,293	-	-	229,293
164	Furniture, equipment & machinery - admininstrator	218,877	-	53,978	272,855
165	Leasehold improvements	6,575,719		830,933	7,406,652
166	Accumulated depreciation	(7,054,235)	-	(24,722)	(7,078,957)
160	Total fixed assets, net of accumulated depreciator	5,224,723	20,000	860,189	6,104,912
171	Notes and mortgages receivable - non-curren				-
172	Notes and mortgages receivable-non-current-past due				-
174	Other assets				-
175	Undistributed debits				-
176	Investment in joint ventures				-
180	TOTAL NONCURRENT ASSETS	5,224,723	20,000	860,189	6,104,912

	LIABILITIES AND EQUITY:				
	LIABILITIES:				
	CURRENT LIABILITIES				
311	Bank overdraft				-
312	Accounts payable ≤ 90 days	315,156	420		315,576
313	Accounts payable > 90 days past due				-
321	Accrued wage/payroll taxes payable	8,751	-		8,751
322	Accrued compensated absences	1,110			1,110
324	Accrued contingency liability				-
325	Accrued interest payable				-
331	Accounts payable - HUD PHA programs		-		-
332	Accounts Payable - PHA Projects		1,054		1,054
333	Accounts payable - other government	42,057	-	-	42,057
341	Tenant security deposits	63,807			63,807
342	Deferred revenues	3,629	-		3,629
343	Current portion of Long-Term debt - capital projects				-
344	Current portion of Long-Term debt - operating borrowings				-
345	Other current liabilities	-			-
346	Accrued liabilities - other	31,022			31,022
347	Inter-program - due to	-	23,445	382,727	406,172
310	TOTAL CURRENT LIABILITIES	465,532	24,919	382,727	873,178
	NONCURRENT LIABILITIES:				
351	Long-term debt, net of current- capital projects				-
352	Long-term debt, net of current- operating borrowings				-
353	Noncurrent liabilities- other	-			-
354	Accr. Comp. Absences- non current	9,993			9,993
350	TOTAL NONCURRENT LIABILITIES	9,993	-	-	9,993
300	TOTAL LIABILITIES	475,525	24,919	382,727	883,171
	EQUITY:				
501	Investment in general fixed assets				-
	Contributed Capital:				
502	Project notes (HUD)	-			-
503	Long-term debt - HUD guaranteed	-			-
504	Net HUD PHA contributions	-			-
505	Other HUD contributions				-
507	Other contributions	-			-
508	Total Contributed Capital	-	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	5,224,723	20,000	860,189	6,104,912
	Reserved fund balance:				-
509	Reserved for operating activities				-
510	Reserved for capital activities				-
511	Total reserved fund balance	-	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-	-
512.1	Unrestricted Net Assets	605,145	1,703		606,848
513	TOTAL EQUITY	5,829,868	21,703	860,189	6,711,760
600	TOTAL LIABILITIES AND EQUITY	6,305,393	46,622	1,242,916	7,594,931

Proof of concept

- - - -

Depreciation Add Back

## Benton Twp Housing Commissi

30-Sep-04

MI032

		Low Rent 14.850	Housing Choice Voucher Program 14.871	Capital Projects Funds 14.872	
Combining Income Statement					TOTAL
Line Item #				-	
	<b>REVENUE:</b>	-	-		
703	Net tenant rental revenue	764,374			764,374
704	Tenant revenue - other	-			-
705	Total tenant revenue	764,374	-	-	764,374
706	HUD PHA grants	548,112	366,903	1,015,055	1,930,070
708	Other government grants				-
711	Investment income - unrestricted	5,243	63	-	5,306
712	Mortgage interest income				-
714	Fraud recovery		852		852
715	Other revenue	14,024	1,183	-	15,207
716	Gain or loss on the sale of fixed assets	(450)			(450)
720	Investment income - restrictec				-
700	<b>TOTAL REVENUE</b>	1,331,303	369,001	1,015,055	2,715,359
	<b>EXPENSES:</b>				
	Administrative				
911	Administrative salaries	197,537	31,314	27,000	255,851
912	Auditing fees	4,700	-		4,700
913	Outside management fees				-
914	Compensated absences	6,086			6,086
915	Employee benefit contributions- administrative	85,558	6,000	13,000	104,558
916	Other operating- administrative	94,282	4,616	-	98,898
	Tenant services				
921	Tenant services - salaries				-
922	Relocation costs	-			-
923	Employee benefit contributions- tenant service:				-
924	Tenant services - other	3,237		23,874	27,111
	Utilities				
931	Water	146,723			146,723
932	Electricity	87,189			87,189
933	Gas	288,265			288,265
934	Fuel				-
935	Labor				-
937	Employee benefit contributions- utilities				-
938	Other utilities expense	-			-
	Ordinary maintenance & operation				
941	Ordinary maintenance and operations - labor	193,725		5,000	198,725
942	Ordinary maintenance and operations - mater	52,188		13,475	65,663
943	Ordinary maintenance and operations - contr	130,163		2,705	132,868
945	Employee benefit contributions- ordinary ma	85,557			85,557
	Protective services				

952	Protective services- other contract costs				-
953	Protective services - other				-
955	Employee benefit contributions- protective services				-
	General expenses				
961	Insurance premiums	80,353			80,353
962	Other General Expenses	-			
963	Payments in lieu of taxes	14,119			14,119
964	Bad debt - tenant rents	8,128			8,128
965	Bad debt- mortgages				-
966	Bad debt - other				-
967	Interest expense				-
968	Severance expense	-			-
969	<b>TOTAL OPERATING EXPENSES</b>	1,477,810	41,930	85,054	1,604,794
970	<b>EXCESS OPERATING REVENUE OVER OPERATING EXPENSES</b>	(146,507)	327,071	930,001	1,110,565
971	Extraordinary maintenance	-			-
972	Casualty losses - non-capitalized	1,539			1,539
973	Housing assistance payments		330,937	-	330,937
974	Depreciation expense	577,396		16,178	593,574
975	Fraud losses				-
976	Capital outlays- governmental funds	-			-
977	Debt principal payment- governmental funds				-
978	Dwelling units rent expense				-
900	<b>TOTAL EXPENSES</b>	2,056,745	372,867	101,232	2,530,844
	<b>OTHER FINANCING SOURCES (USES)</b>				
1001	Operating transfers in (out)	166,918		(166,918)	-
1002	Operating transfers out	-		-	-
1003	Operating transfers from/to primary government			-	-
1004	Operating transfers from/to component unit				-
1005	Proceeds from notes, loans and bonds				-
1006	Proceeds from property sales				-
1010	<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	166,918	-	(166,918)	-
1000	<b>EXCESS (DEFICIENCY) OF TOTAL REVENUE</b>	(558,524)	(3,866)	746,905	184,515
<b>MEMO account information</b>					
1101	Capital contributions				
1102	Debt principal payments- enterprise funds				-
1103	Beginning equity	-			-
1104	Prior period adjustments and equity transfers				-
1105	Changes in compensated absence liability balance (in the GLTDAG)				-
1106	Changes in contingent liability balance (in the GLTDAG)				-
1107	Changes in unrecognized pension transition liability (in the GLTDAG)				-
1108	Changes in special term/severance benefits liability (in the GLTDAG)				-
1109	Changes in allowance for doubtful accounts - dwelling rents				
1110	Changes in allowance for doubtful accounts - other				-
1112	Depreciation "add back"				-
1113	Maximum annual contributions commitment (per ACC)				
1114	Prorata maximum annual contributions applicable to a period of less than twelve months				
1115	Contingency reserve, ACC program reserve				



BENTON TWP HOUSING COMMISSION  
Schedule of Annual Federal Awards  
For the Year Ended September 30, 2004

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Direct Programs:

	<u>Annual Program Expenditures</u>
* <u>CFDA 14.850 Public and Indian Housing</u>	
C-3029 Operating Subsidies	\$ <u>548,112</u>
* <u>CFDA 14.871 Housing Assistance Programs</u>	
C-3099V Section 8 Housing Choice Vouchers	\$ <u>366,903</u>
* <u>CFDA 14.872 Capital Projects Funds</u>	
C-3029 Capital Projects Grants	\$ <u>1,015,055</u>
	\$ <u>1,930,070</u>

\*Connotes Major Program Category

Significant Account Policies

The accounting policies of the Commission conform to generally accepted accounting principles as applicable to governmental proprietary funds. The financial statements contained in the Commission's annual audit report are prepared on the accrual basis of accounting; revenues are recognized when earned, expenses are recorded when the related services or product are received.

Risk management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 21,583,000
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

BENTON TWP HOUSING COMMISSION  
Status of Prior Audit Findings  
September 30, 2004

The prior audit of the Benton Twp Housing Commission for the period ended September 30, 2003, did not contained any audit findings or questioned cost.

BENTON TWP HOUSING COMMISSION  
Report on Compliance Applicable with Requirements to  
Each Major Program and on Internal Control over  
Compliance in Accordance with OMB Circular A-133  
September 30, 2004

Compliance

I have audited the compliance of Benton Twp Housing Commission with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2004. Benton Twp Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Benton Twp Housing Commission's management. My responsibility is to express an opinion on Benton Twp Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Benton Twp Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Benton Twp Housing Commission's compliance with those requirements.

As described in the following findings in the accompanying schedule of findings and questioned costs, the Commission failed to comply with one or more of the following compliance requirements: Activities allowed or unallowed, Allowable Costs/cost Principles, Cash Management, Davis-Bacon Act, Eligibility, Procurement, Reporting, or other compliance matters. Compliance with such requirements is necessary, in my opinion, for the Commission to comply with the requirements applicable to that program. The following programs, findings and compliance matters are detailed in the schedule of findings and questioned cost:

Low Rent Public Housing:

<u>Finding</u>	<u>Audit Number</u>	<u>Compliance Requirements</u>
Public Housing:		
Tenant Accounting Discrepancies	4-1	Eligibility
No Credit Card Policy	4-2	Activities Allowed or Allowable

Section 8 Vouchers:

Tenant Accounting Discrepancies	4-3	Eligibility
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In my opinion, except for the noncompliance described in the preceding paragraph, the Commission complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

#### Internal Control over Compliance

The management of Benton Twp Housing Commission entity is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing my audit, I considered Benton Twp Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over compliance and its operation that I considered to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the Commission's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as referred to above.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe that none of the reportable conditions described above is a material weakness.

This report is intended for the information of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant

March 24, 2005

BENTON TWP HOUSING COMMISSION  
Report on Compliance and on Internal Control over  
Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with  
Government Auditing Standards  
September 30, 2004

I have audited the financial statements of Benton Twp Housing Commission, Benton Harbor, Michigan, as of and for the year ended September 30, 2004, and have issued my report thereon dated March 24, 2005. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Benton Twp Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards; see the findings and questioned cost section of this audit report.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Benton Twp Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no instances which may be considered weaknesses that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Certified Public Accountant

March 24, 2005

BENTON TWP HOUSING COMMISSION  
Schedule of Findings and Questioned Cost  
September 30, 2004

1) Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing	X	
Section 8 New Construction	X	
Capital Projects Funds	X	

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	<u>        </u> Yes	<u>  X  </u> No
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Reportable condition(s) noted	<u>        </u> Yes	<u>  X  </u> No
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Non Compliance material to financial statements noted	<u>        </u> Yes	<u>  X  </u> No
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Report on compliance for Federal programs-

Qualified

Material weakness(es) noted	<u>        </u> Yes	<u>  X  </u> No
-----------------------------	---------------------	-----------------

Reportable condition(s) noted	<u>  X  </u> Yes	<u>        </u> No
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Non Compliance material to financial statements noted	<u>        </u> Yes	<u>  X  </u> No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

The Auditee did qualify as a low risk auditee.

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Public Housing	Yes	None	04-1, 04-2
Section 8 Housing Vouchers	Yes	None	04-3
Capital Fund Project	Yes	None	N/A

BENTON TWP HOUSING COMMISSION  
Schedule of Findings & Questioned Cost  
September 30, 2004

The following findings of the Benton Twp Housing Commission, for the year ended September 30, 2004, was discussed with the Executive Director, Ms. Sharon Hester, in an exit interview conducted March 24, 2005.

Finding 04-1:

Tenant Accounting Discrepancies, Low Rent Program

Out of 10 files tested the following discrepancies were discovered:

- 5 files lacked sufficient third party income verification or used the incorrect income in the rent calculation
- 6 files did not have citizenship forms completed
- None of the files contained a rent election form

Recommendation

HUD requires the above verifications and documentation in tenant files; non compliance with the above requirements could result in miscalculated rents.

Citizenship forms are required and should be completed for all household members.

I would recommend the Commission review the recertification process and implement a monitoring program to insure compliance with HUD requirements.

Reply

The Housing Commission has implemented a monitoring system to review the Public Housing Tenant files. We will inspect a percentage of the files each month, to have results at 100% by fiscal year end. Someone other than the person that worked on the files will use the Public Housing Check List to ensure that everything is in place after a tenant has move-in recertification and interim.

Finding 4-2:

The Commission has a credit card, however no credit card policy in place.

Recommendation

No abuse of the credit card was detected, however, the Commission should have a written policy in place which states the conditions, users, and restrictions placed on the Commission credit card.

I recommend the Commission draft and approve a credit card policy.

Reply

The Housing Commission now has a Credit Card Policy in place.



Finding 4-3:

Tenant Accounting Discrepancies- Section 8 Vouchers

Of the 6 files tested, the following discrepancies were revealed:

- 2 lacked third party income verification
- 2 lacked rent reasonableness forms
- 2 used the wrong utility allowance

Recommendation

HUD requires the above verifications and documentation in tenant files; non compliance with the above requirements could result in miscalculated rents.

I would recommend the Commission review the recertification process and implement a monitoring program to insure compliance with HUD requirements.

Reply

The Housing Commission has implemented a monitoring system to review the Section 8 Housing Choice Voucher Program files. We will inspect a percentage of the files each month, to have results at 100% by fiscal year end. Someone other than the person that worked on the files will use the File Check List for Section 8 Housing Choice Voucher Program to ensure that everything is in place after a tenant has move-in recertification and interim.